

SatFACTS EXTENDED

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"It's about the economy - stupid!"

During the 1992 US presidential campaign run by Governor Bill Clinton of Arkansas, his Little Rock headquarters made extensive use of C-band satellite to allow the candidate to 'connect' with voters and TV stations from coast-to-coast. On the wall, in very large block letters, one of his aides had posted a sign which served to remind the campaign workers and staff of where Clinton felt his message to the voters should center. The sign read - *"It's about the economy - stupid!"*

And so too is the media world, the business world, indeed - even your own personal world in March 2009. 25% of New Zealanders *'expect* to lose their job' during 2009; 56% *'expect* to have the work hours cut and/or their pay rate reduced during 2009'. Television New Zealand's advertising revenues fell approximately 10% in the last 3 months of 2008; preliminary numbers show a further fall of 5% in January leading into February. As many as 15% of the 1,000+ employees are expected to lose their jobs while TVNZ is already suggesting to government it may *'require* \$25,000,000' as a *'top-up'* from government just to balance its books on June 30th.

The financial news dominates the media; cable news channels seem to be in a competition to *'be first'* to reveal the latest *'downward spiraling numbers'* as everything from egg futures to house mortgage foreclosures is now under the overseer's microscope.

And yet in the midst of this *'doom and gloom'* there are regional bright spots. Australia and New Zealand were slower to react to the downturn in the world economy overall during 2008 but ultimately by the final 3 month quarter even here *'at the bottom of the earth'* the impact of tightening fiscal supplies hit home. Sky NZ is rapidly closing in on 50% home penetration and while comparative numbers are difficult to source (and verify) it would appear CEO John Fellet's stewardship has been so *'spot-on'* to make him the most successful of all satellite delivered pay-TV operators. Sky's growth has averaged just over 3% (new subscriber homes) each year for the past five and the impact of *'sixty-something'*

The FINAL "final issue"

The inaugural issue of SatFACTS was September 1994; an 8 page newsletter format. For 14 years and 8 months, ending April 2008, monthly full publications grew to reach thousands of readers and more than 60 countries. From June 2008 until this month SatFACTS "EXTENDED" has allowed us to wind-down the publication for the creator's gradual drift off into semi-retirement. SFE has existed to complete the previously paid subscriptions which did not, by coincidence, *'run out'* in April 2008 (or before).

The creator of SF/SFE has from 1956 onward authored more than 1,200 publication issues and print *'columns'* for a list of periodicals ranging from *'Mother Earth News'* and America's *'TV Guide'* to *'Playboy'* and amateur radio's *'QST'*. Somehow in the same time span 44 books have been written, of which 3 remain to be published with two additional *'in process'*. So *'semi-retirement'* is a bit misleading - what it really means is a refocus of available time (at 71 years that is an issue, health matters aside) and energy. But there will be a ***'Bob Cooper Blog'*** and it will primarily concern the satellite + cable + pay TV world simply because while the available energy is being redirected, our now 53 year *'love affair'* with all things television is hardly over; yet!

Bob Cooper Technology Blog at:

www.apsattv.com

and click on ***'Bob Cooper Blog'*** upper left of first page; *starts around April 1!*

channels versus the OTA alternative of between 3 and 8 remains impressive. Sky's primary competitor TVNZ, the force behind the so-far unimpressive Freeview, has more battlefronts than weapons or skills; TVNZ's *'ONE'* has dropped from a 40% audience share a decade ago to under 27% while their *'2'* service has fallen to 20% in the same period. OTA competitor TV3 also averages a 20%

In this issue: "Watch the pennies - the dollars will take care of themselves"

Bob Cooper's SatFACTS Extended - March 2009 - page 1

share of audience while PRIME, owned by Fellet's Sky, limps along with a 5% penetration. Add the numbers up: $27 + 20 + 20 + 5 = 72$. That leaves 28% 'missing'.

The Australian Numbers

In a January study, Foxtel claimed 1,591,000 subscribers while Austar reports 720,270. Those are impressive (2,311,270 total representing 33.41% of all Australian households). But there are other numbers even more impressive; almost a count-down to the eventual sign-off for OTA in the country.

The Australian free-to-air broadcasters could be on a one-way train headed for oblivion. Their copying of the 'Freeview' name for what is left of OTA appears doomed. But wait - even if 33.41% of Australian homes are now connected to 'pay-TV' (not quite as impressive as New Zealand's John Fellet driven 'nearly 50%') there is another number that begs deciphering. According to Foxtel, not known for their numerical integrity, "59% of Foxtel homes view pay-TV channels - first". It could be - might be - a misleading number, designed to prompt the sale of more paid-for advertising to their benefit. But assume it is as represented. *What does it mean?*

What they would like advertisers to believe is that for 59% of all of Foxtel's 1,591,000 homes they watch 'pay TV channels more frequently than free-to-air channels'. What the brevity of the report does not explain is whether these 59% of homes are in fact not watching over the air channels at all, or perhaps they do watch them but only through their Foxtel connection. Let's return to New Zealand.

We left (above) with "28% missing" which means if you sum the total viewers for TVOne, 2, 3 and Prime, there are 28% of all homes who are not watching any of these (four) channels when the survey is taken. The assumption is, subject to qualification, they must be watching Sky since that is the only alternative (we are overlooking TAB, TVNZ6, TVNZ7, TVNZ Sport Extra and whatever else might be available to a home with analogue OTA or Freeview). On the perhaps incorrect assumption Sky at a moment of survey study is attracting 28% of the homes, is that suggesting something? Indeed.

New Zealand's "28%" and Foxtel's "59%" should be comparable numbers - assuming we are dealing with equal methods of survey and comparison here. However, that is at best unlikely and at least for the Foxtel number one must assume they were creating a figure largely for the purpose of hyping the sale of advertising time on their channels rather than presenting a studious study of Australian viewing habits.

The downfall of OTA advertising

Television stations (networks) normally depend upon the sale of commercial advertising time to exist. Pay-TV treats commercial advertising time as 'bonus revenue' which in time - years perhaps - will have a significant positive effect on their financial statements. On the other

It's about the economy - more numbers

Fiji TV has posted a six month loss (to December 31) of F\$401,664; advertising dropped 8%, pay-TV subscription revenue 13%. On the brighter side, PNG's Fiji-owned EMTV posted a 4% growth contributing F\$1.137m to the parent company bottom line.

DISH Network (USA) lost 102,000 subscribers in quarter-4 (2008) - in 2007 the same period saw a gain of 85,000. DISH's stock price dropped 11.7% to US\$9.93 (per share) on the news.

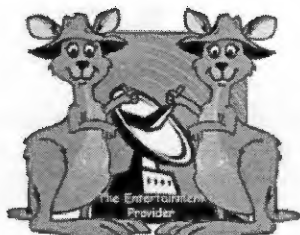
Tivo - the DVR company - reports a subscriber loss of 3.6% from the previous quarter period.

AUSTAR (Australia) reported a net loss of A\$74.4 million (2008) versus a profit of A\$77.31 million for 2007.

FOXTEL ran counter to others - a profit of A\$196 million, up 19% from "first half of 2007 year" (why they are comparing last half of 2008 with first half of 2007 is unclear).

hand, the sale of advertising time for TVNZ, for example, is largely built around the 'demographics' of the audience for a particular time slot (such as the 6PM news) or program (such as 'Boston Legal'). Demographics 'rule' in the advertising world - a firm selling women's products selects a program which attracts viewers in the age group they consider to be their primary consumers. But a FTA network, such as Channel 9 Australia or TVNZ One, has a mixed bag of shows which over the course of a day, week, month have widely varying audience appeal numbers; cartoons for kids under six seldom attracts viewers who purchase condoms while 'Boston Legal' does.

And that is where Foxtel, Austar (which in fact is largely just a clone of Foxtel) and Sky (NZ) have the advantage; with channels designed for specific viewing genres and age groups they can argue (with numbers) the audience for a particular network (such as 'W' on Foxtel/Austar) does not include any 'wasted eyeballs' - kids under 6. 'Comedy Central' (recently added to the SKY NZ line-up) appeals to 18-36 year olds, hip people who by their lifestyles are more apt to spend money on condoms or wine than the folks who are watching the older-set 'Lifestyle' channel. This is no place for a lesson in advertising strategies but only to ensure you realize that when SKY NZ adds a new channel (such as Comedy) it is not done based solely upon some narrow study of channel-content. At some point in the maturity of a pay-TV service such as Foxtel or SKY NZ it becomes far more important to attract and hold advertising. And it is that aspect of pay versus 'free TV' which will sooner than later seal the fate of the OTA services; take away revenue from OTA's only revenue stream.



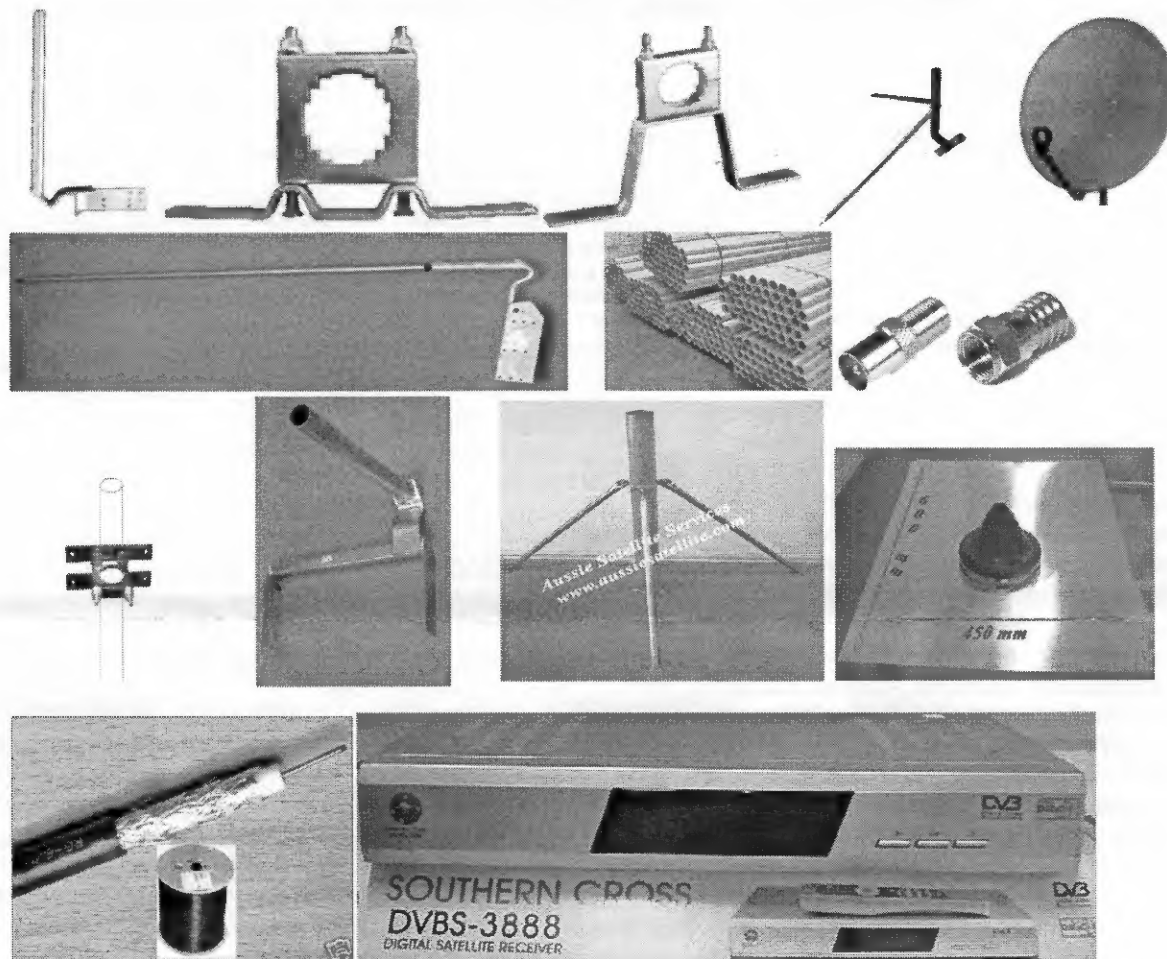
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It has already happened in regions where pay-TV dominates; Canada (92%), the USA (85%), the Netherlands (98%) for example. Cable (and satellite delivered pay-TV) services in the USA now go directly from a TV station's video and audio final 'board' to fibre cable for their feeds. In effect, the TV 'transmitter' is of no practical use for the cable or satellite fed service - if it was turned off tomorrow, as long as the TV service continued producing programs there would be an audience, in the USA roughly split 65% on cable and 20% via satellite. The 'other' 15% - those still relying on over the air antennas on the roof or in their attic or on their set-top 'rabbit ears' would notice the transmitter was 'off'; an inducement to quit eating out so often and budget \$60 or \$80 a month for a 'pay-TV' connection. Again, *"it is the economy - stupid!"* at work.

A well known engineering professor at MIT more than thirty years ago made a point - which at the time was considered foolish. He said - "We have done it all wrong - the services delivered via wire (he was pointing at telephone) should be 'in the air' (as in two-way radio based) while the services that are in the air (TV was his point) should be on wire." Of course that was prior to 'delivery via satellite' which while certainly 'through the air' comes nearer to 'by wire' than it does to the OTA (over the air) VHF and UHF transmitters. How? Perhaps not by the technology but that connection between the programmer source (the studio - audio/video output control board) and the satellite TV link (using fibre) is pure 'by wire'. The satellite is merely an intermediate delivery step, transparent to most users. And when was the last time you heard a 'user' even talking about 'how it gets here' - to their TV set(s)? Nobody cares which is the true mark of a 'transparent delivery system'; at the pay-your-invoice consumer level, it comes down to 'flickable channels' versus 'so-many dollars per month'. The rest is unimportant - until it stops working. Being a 'technologist' in this industry is unimpressive and won't get you invited to stay for dinner - very often.

One reaction to downturn: Austar

Life is filled with ups and downs, bumpy rides, unmarked curves. The pay-TV world differs little from any other 'optional-extra' offering to the public at large. Take your favourite weekly/monthly publication and compare the current issue to one 12 months or longer ago. The publication is by-page-count smaller and there are other possible economies at play. In the United States, a very significant indicator is rushing through the newspaper world. Los Angeles Times, San Francisco Chronicle, Denver Rocky Mountain News, Chicago and Philadelphia daily papers are not getting smaller; *they are going out of business!* Closing down, some after successful runs that began as long as 200+ years ago. How do define recession? Formally - when the GDP (gross domestic product) in a country goes backwards for

The 'transparent' delivery system: \$28,000 worth!

As if to punctuate the mindset of TV watchers (*"when was the last time you heard a user even talking about how it gets here:"* - left) this example. Wayne Burdick found himself on a cruise ship in Miami waiting for a Caribbean cruise to begin. Bored he switched on his AT&T connected mobile-cell phone, connected through the network to his home back in Illinois where a recently installed 'Slingbox' was told to tune-in a professional football game. Burdick spent 2 hours and 30 minutes 'on line' nursing a complimentary cruise-line set of drinks and luxuriating in his private handheld phone-to-home video connection. After the cruise the bill arrived; \$27,788.93. The cause? Fine-print in the AT&T contract with Burdick creating 'data roaming charges'. Even though the ship was sitting in port for the 210 minutes he was 'on line' his AT&T phone had connected not through the local (readily available) cell phone site but rather a shipboard 'roaming link' which created his Slingbox through a very expensive satellite link. AT&T initially refused to budge on the bill claiming they had sent him a text message advising him of what was happening (it turns out Burdick does not have a text message option in his AT&T plan). Then in negotiation they offered to reduce the charge to \$6,000. Ultimately it would be \$290.65 which he would pay. All of which illustrates that the more sophisticated 'we' become with our electronic toys, the more dangerous they become.

two quarters (six months). Closer to home, 'when *your neighbour* loses their job and the home is sold in a mortgage sale'.

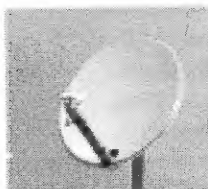
And how do you define depression (the economic kind, not the mental version - which can be brought on by the economic version)? Economists largely agree on 'recession' - few agree on what constitutes an 'economic depression'. It is perhaps one of those 'you will know when you experience it'. Or, unfortunately, 'after' you experience it. The GDP is of little help here - although some experts believe a 10% drop in GDP (over whatever period of time is required to reach such a measurement level) is a strong indicator. In the now legendary 'stock market crash' of 1929 the effect of Wall Street values crashing took as long as two years to reach 'main street'. At the height of the era, which lasted from early 1930 until 1936, and then after a one year recovery headed down again in 1937, numbers like '25% unemployed' and '30% decline in GDP' were cited. And it was essentially world-wide. This time - if there is a 'this time' - the world's financial system is so altered from the 1929 model that comparisons are essentially impossible. One

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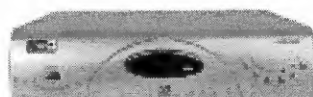
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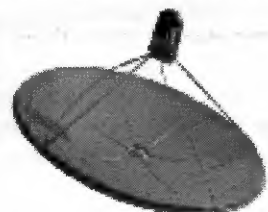


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of the more learned definitions of a 2008-2009-2010 'depression' simply says, "This time the greatest fear is job loss; a depression today might not be indicated by a 10% decrease in the GDP, but instead might be the result of business practices intended to be more profitable."

And this has what to do with the pay-TV and telecommunications world? "It is the economy - stupid!"

John Porter, CEO of Austar, recognizes the changing economic climate. Although his firm increased subscribers by 8% in 2008 and raised the average monthly subscriber payment to A\$80.08, there was that nagging A\$74.7 million loss. Interest on borrowed money, facing a \$225 million repayment in 2011, was a killer. His plans for 2009?

"Given the economic conditions, subscription rate increases (i.e. charging more for the same thing in 2009)

would be half of the 2008 levels while marketing funds will be redirected to brand-based advertising. There is no point in being overly aggressive to a market that is not listening."

Oh - they are indeed listening and weighing that \$80.08 each month against other family options - such as putting petrol in the family vehicle or taking the kids to a movie. One of the measurements of customer satisfaction in the pay-TV world is known as 'churn' - the percentage of subscribers who during a 12 month period disconnect; elect to discontinue service. Foxtel reported 13.3% 'churned' during 2008 - in a universe of 1,591,000 that comes in at 206,830 lost customers; 567 each day of the year.

SO - how do you tell when there is a depression? When you give up your pay-TV?

When in doubt - spend money

One might 'think' that TVNZ, experiencing a serious loss in advertising income, a 32.5% drop in viewing eyeballs in the past decade, and the threat of axing the jobs for 15% of the 1,000-plus employees, somebody in authority would begin counting the number of unused toilet paper rolls in inventory. Hey - WHEN the Chinese discover the eternal joys of sit-down toilets and the use of processed 200-sheet soft-weave-rolls, *that will be the ballgame*; toilet paper prices will double and triple, we will be assigned allotments and queue tickets to stand in line for our one roll a month. But no, TVNZ according to a usually insider-connected source (the website commentator Crikey) is investing (the report claims) NZ\$19 million to acquire a 'one-third-ownership' interest in the American hard drive recording device known as TiVo. No, *not* the company - not for NZ\$19m. Some history.

Australia's Seven TV folks elected a few years back to prepare themselves for the onrush of new technology - especially the Foxtel iQ and Austar's MyStar kind. TiVo was - is - the originator of a technology which turns a hard drive video recorder into a 'smart machine' capable of being operated from a remote location through a cell or standard phone connection. Get caught in traffic and going to miss the first 15 minutes of Boston Legal? A call home, some phone buttons pushed, and the TiVo (or iQ or MyStar) is whizzing away with your instruction. TiVo (and the rest) 'remember' the shows you like and will actually find other similar shows to offer to you as 'suggested record targets'. As the ads in America proclaim, "I LOVE MY TiVo!"

So Sky NZ has their own adaptation of the Foxtel iQ version; MySky. One of the reported marketing tools for MySky is to 'reward' loyal customers with a 'six month free trial' of the sophisticated box - the proven 'once you

get it into their home, you have a sale' first employed by door to door vacuum/hover sales personnel.

But TiVo Australia, which is a sort of 'money-has-been-paid franchise' owned by Seven Network, is not the same as TiVo in the USA; there are several missing features. How New Zealand will deal with the 'blocked functions' remains to be decided. For example, in the home country a TiVo can (and will on command) redirect something received or recorded onto/into a PC (and thus the worldwide web). Not in Australia - there is a copyright wall there. And also in America TiVo can go directly to the web, locate a video stream, and record from that as well. Ahh - however - not in Australia.

So let us for frivolous discussion assume Crikey has it correct; for some number (perhaps NZ\$19 million) TVNZ will own 33.333 percent of the TiVo franchise for Australia (or perhaps not) and New Zealand (or perhaps what they would be actually buying is a 'distributorship for New Zealand exclusivity' and not a third interest in the 'Hybrid Television Services [ANZ] Pty' firm. A TVNZ spokesperson, who would neither confirm nor deny the report, did offer this underlying statement of policy:

"TVNZ is undergoing a transition from a straight forward broadcaster to a digital TV company. An acquisition, in theory, is one of the things open to us as a revenue source and driver as we make this transition."

Yes, that *does sound like* confirmation of the Crikey report.

Unexplained in any of the early information is how, once TVNZ (or anyone else) has invested in this 'digital broadcaster technology as a driver' gets their money back. Will TVNZ actually import and sell a NZ version of TiVo (remember - that is what Sky does with MySky). Or hope to somehow see revenue from yet unexplored advertising sales opportunities? Stay tuned.

"Stay Tuned" (page 6) - but not for long!

TVNZ's reported venture into the world of hardware - TiVo in particular - may have legs but the business plan could prove to be a challenge. (From page 6) recall it is Channel 7 Australia which holds the Pacific 'franchise' for TiVo and according to (from page 6) reports TVNZ is considering - has considered but not formally announced - 'purchasing' up to 1/3rd of that franchise. All details are lacking. But now comes an announcement from the master franchise holder in Australia which includes the following statements:

"TiVo was Seven's bid to 'future proof' TV from the increasing threats of peer-to-peer pirate internet downloads. The service should reduce the growth of illegal downloads of TV shows. One in three broadband customers is a pirate and half of all BitTorrent (Editor's note: a web site famous for providing access to video materials) downloads are TV shows."

So comes the Seven response:

1/ They have partnered with Adelaide ISP Internode to provide a new TiVo dependent service which will (this is the tricky part) 'provide unmetered video downloads'.

2/ Customers will sign-on for a 24 month period and be provided with a(n Australia version) of TiVo at a cost of A\$79-99 per month.

3/ The package (hardware plus software connection through Adelaide ISP) will provide a wireless broadband internet connection to the TiVo and the home PC - allowing essentially unlimited downloads and movies without paying download penalties.

4/ **Movies?** Ah, yes - the kicker. The service (formally known as Hybrid Television Services but surely unlikely to stay with such a cumbersome name) will offer downloads of movies - they say there will be 'approximately five per month which are free to view but will carry commercial advertising' while they will also offer 'up to 100 per month for which there will be a fee'.

5/ **Movies for a fee?** Like what, in comparison? Well, like Foxtel's cable or satellite delivered movies or SKY (NZ) Box Office films. The movies will come from the Franchise Entertainment Group (they operate Blockbuster and VideoEzy chains) and the press release includes the statement, "No broadband provider can really expect to live without a content play in the future and this is ours."

6/ Future plans? "A catch-up television service beginning with local Seven Network shows, to which it has rights, will launch by May or June."

Summary? Consumers will receive a TiVo (Australian version - see page 6 here) box, a TiVo wireless adapter, a wireless router modem and (here is the tricky part again) 'unmetered ADSL 2+' connection.

And they will pay just under A\$100 per month under a 24 month contract at the end of which they will gain ownership of the hardware. In the meantime, they will be able to use the Australian-hobbled TiVo to watch five 'free' movies a month, perhaps have access to a limited amount of 'catch-up' TV, and at their option order and pay for films out of a VideoEzy/Blockbuster playlist which will mimic the films available through Foxtel Box Office. Oh yes, the broadband service will (they say this is a first ever, anyplace) also include Dolby 5.1 multiple channel sound. The target is 500,000 users in five years and that tells us not very much about how, under New Zealand's far less developed broadband network, TVNZ might plan to use their TiVo franchise. Again, stay tuned.

And special thanks to I.F. in Australia for his detailed reports over the years. Without his monthly assistance (including this month for which I have elected to not use his material) SatFACTS would have been a much shallower publication.

A true friend, to the end.

About which - as noted on page one, a 'Bob Cooper Blog' (I regret the name too!) will continue in my tradition for as long as I am able - with another set of thanks to Craig Sutton who as a discipline of great dedication maintains the web site listed below. The first blog will be approximately 1 April but don't hold me to that - nor, updates on any kind of *scheduled* basis.

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